

Maximizing the Health Care Dollar
A Presentation to
Governor Scott McCallum
And
Connie O'Connel, Commissioner of Insurance
And
Phyllis Dubé, Secretary, Department of Health and Family Services
Wednesday, August 28, 2002, 3:00 p.m.
By
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"Health care costs are placing an overwhelming burden on Wisconsin families, businesses and communities. Employees are seeing their wages stunted and employers are struggling to maintain their bottom line. Meanwhile, some residents have difficulty getting the health care services they need. Wisconsin has long been known as a laboratory for change. It's time to gather our best ideas and act on them," said Governor Scott McCallum.

I present today a Plan the concept of which is intended not as the panacea for solving spiraling health care costs, but is intended to reduce significantly existing tax supported health care expense and provide for better management of future health care costs.

Identifying the scope of the Plan.

According to Mr. Dale Knapp of the Wisconsin Taxpayers Alliance, the U.S. Census Bureau reports that as of March 2001 Wisconsin had a Full Time Equivalent (FTE) public workforce of 288,258. This number includes all persons working for tax supported governmental entities for whom health and dental insurance is paid.

For the purpose of explaining my plan I estimate the statewide annual cost of health and dental insurance per employee to be \$15,000.

Doing the math, 288,258 FTE employees at a cost of \$15,000 each computes to a current combined annual expense for tax supported governmental entities of \$4,323,870,000.

Identifying the components of the Plan.

This plan calls for the establishment of a State legislated health and dental self-funded Preferred Provider Organization (PPO) Program to insure public employees.

I present today a concept. Many details must be identified and resolved by those having access to relative data, knowledge of laws and regulations, and resources necessary to convert my concept into a viable administrative plan. To this end several questions come to mind. First, where will the state get the money for this plan? Second, how would the state administer such a plan? Third, how would the plan acquire provider discounts? How can we get the insurance and health care industry to work with us?

Where will the state get the money to fund this plan?

The source of funds to establish and maintain the fund's claims pool would come from all governmental entities served by the PPOs equal to the required premium for each FTE. In short, from where it already comes but instead of the various municipalities sending checks to many different insurance companies in varying amounts, all governmental entities would pay the same rate to the state for each employee. Subsequently, when governmental entities budget for health and dental insurance they simply multiply the number of FTE employees taking the insurance by the statewide annual premium. Payments would then be made to the state monthly or quarterly depending on cash flow or the parameters of the PPO plan. In turn the state makes payment to the health and dental insurance Third Party Administrator/s.

How would the state administer such a plan?

Dollar amounts associated with this plan are significant. The insurance and medical industry will understandably be interested in any outcome associated with changing the status quo. They would understandably be apprehensive about any plan that might negatively impact profits. Business must make a profit, a reasonable profit. We must also be sensitive to the fact that tax dollars support public employee health care plans and as good stewards of such funds it is our responsibility to be creative and innovative in holding down costs for the benefit of the taxpayer, which includes businesses and their customers.

Under the concepts of this plan I envision insurance companies playing an integral role in the success of any outcome. The insurance industry has in place the needed apparatus to process claims and serve as a Third Party Administrator. The state would be foolish to attempt to replicate this apparatus and would benefit both financially and politically by keeping the insurance industry involved. Perhaps on a bid basis companies could be awarded claim processing for various groupings. For example, such statewide groupings might be K-12 teachers, K-12 administrators, , university and technical college faculty, university and technical college staff, municipal employees, county administrative staff, county support staff and so forth.

The insurance industry also must play a significant role in providing specific and aggregate stop loss insurance for the plan. Stop loss coverage might be provided by many insurance companies pooling their risk exposure through a special state consortium, or by individual companies providing coverage by group, or by some other method or combination. This is one of those highly complex issues that would require study, but significant risk reduction without significant expense, or significant loss in revenue will be attractive to the industry.

How would the plan acquire discounts?

My plan calls for ALL governmental employees to participate and ALL health care providers in Wisconsin to participate, perhaps even some providers like Mayo Clinic as well. I am unsure of the legality of requiring health care providers to participate, but since the state licenses them perhaps they might be enlisted as participants. Failing that, it would seem likely that a group of 288,000 would generate a great deal of interest among providers and that the state should be able to negotiate an attractive provider discount rate. Data I have seen clearly shows different discount rates are offered to different carries by providers. This savings potential alone could be significant while benefiting providers by reducing the number of plans with which they deal.

Deductibles, co-pays and other plan elements must be determined. If the resulting PPO plan is too restrictive and expensive for the employees and their unions this initiative will fail. If the resulting PPO plan is too expensive then cost savings benefits may not be possible and the legislature and public would create its demise. A suitable compromise must be found.

Further cost reduction is possible by discouraging over-utilization of service by employing medical savings accounts under IRS code 501 (c)(9). For example, amounts equal to an annual deductible could be deposited into an employee's medical savings account. If the employee does not access the health care system she or he keeps the money in their account. We use of the health care system is unavoidable money from this account can be used.

Faults or weaknesses in the plan.

Politics

Change is often difficult for individuals and organizations. Some use change to invigorate and to accomplish greater success while others fear change to the point of becoming immobilized. Governor McCallum and all of us have talked about the problem of health care costs and the need for new ideas.

I believe that ideas without action remain only dreams. Strong political forces will be at work swirling around at times as a tempest. If we are not persistent such forces may immobilize our good intentions leaving us to opine the perennial discourse, "Somebody should do something about this." I ask, "If not us, then who?"

We must engage and involve stakeholders and guide them to a meaningful action the results of which they need not fear.

Labor Contracts

The vast number of labor contracts throughout the public sector and the myriad of articles prescribing plans, coverage limits, carriers and the like contained within these contracts are so varied and complex that no voluntary integration resulting in a statewide PPO plan seems possible. My plan calls for involving representative groups in the crafting of a reasonably acceptable PPO plan. There will be winners and losers, but with the creation of a reasonable plan inevitably we will all become winners. After this new norm has been in place a few years many may wonder why we had not done this sooner.

Legislation

I envision through legislation the establishment of a Wisconsin Public Employee PPO Plan. This appears the best way to provide sufficient opportunity for public discussion and debate, and the only way of overcoming the minefield of labor contract provisions. Such legislation must supercede any existing contract language.

Computational or Assumption Errors

Not every public employee takes health and dental insurance. For the sake of discussion, let's say that 25% of the employees do not. The initial figure of over \$4.3 billion would be reduced to just over \$3.2 billion.

Given this limitation, for every ten percent (10%) of savings using my plan Wisconsin Taxpayers would annually save over \$300 million. And savings of 20% to 30% may be possible.

Thank you for your time in listening and I ask you to seriously consider this concept.